



Munich Personal RePEc Archive

Cooperation of the Enterprises in East European Countries and EU: Adjustment Problems

Dimitrov, Mitko

2004

Online at <https://mpra.ub.uni-muenchen.de/57235/>
MPRA Paper No. 57235, posted 10 Jul 2014 20:11 UTC

Dimitrov Mitko (Bulgaria)**COOPERATION OF THE ENTERPRISES IN EAST EUROPEAN COUNTRIES AND EU: ADJUSTMENT PROBLEMS**

The process of internationalization and integration of the East European transition countries is generating severe pressures on their economic and particularly industrial bases, taking the form of an intensive competition on international and domestic markets with more advanced Western European enterprises (CEC, 1993; Petrakos, 1997). This type of economic relations, however, generates a real danger for a new division in Europe where the East European countries will form the new European periphery (Petrakos and Totev, 2000).

The problem of the East European transition countries can be summarized in the following way. If in the foreseen fixture a stable process of convergence it is not feasible to start, the observed process of divergence between Western and Central European countries cannot be stopped or at least smoothened.

The East European countries have to convince the positive forces in their own abilities to overcome negative trends. The first step could be the end of complaints and mutual efforts in problem resolution (Jackson, 2001). This attitude will help the region to reverse the process of withdrawing the investors' interests. The countries should change the existing idea of a risky and uncertain atmosphere that the foreign investors have about them.

Here some estimates obtained from a survey of the possibilities for regional and cross-border cooperation within four Balkan countries are presented. Mainly small and medium enterprises (SME) from Bulgaria, Macedonia and Albania (53 to 63 questionnaires) and Greece (121 questionnaires) were surveyed.¹

Enterprises, which already have or have no business relations with neighbour countries, were examined. This is made in order to identify more accurately the barriers for regional cooperation, including those insurmountable for the enterprises cooperation.

¹ The survey was realized under PHARE ACE Project coordinated by the Institute of Economics at the Bulgarian Academy of Sciences.

Main results and conclusions:

First, political and economic stability in countries of the region is of considerable importance for successful business and cross-border economic relations' development. Businessmen are very sensitive to this factor, its absence is taken as a barrier to mutually favourable economic relations, which are expressed in the considerable valuation difference in different countries.

Second, the need to improve trade and financial conditions is obvious, every positive result in this direction will stimulate regional relations. Financial conditions and especially access to financing need to be very seriously improved in the observed countries.

These recommendations are to a great extent addressed to national governments, but they have an entirely economic character. The improvement of trade conditions depends on the national governments' efforts because, as usually considered, the unification of these conditions go along with WTO membership, agreements for EU association, EU membership. The unification of trade conditions can also be speeded up through bilateral and multilateral regional agreements.

Third, businessmen prefer, first and foremost, to expect help from institutions of the three countries. National and regional business associations, local authorities, international organizations are not only evoked, but they should also be interested in helping to establish cross-border economic relations. This is the area where most efforts should be applied in order introduce changes and where barriers for regional cooperation could be relatively easily overcome.

Considerably little is achieved by the EU institutions which have rich experience in assisting regional cooperation, including cooperation of border areas with other countries. This is a sphere that has been entirely neglected until now and where a lot can be done for regional and cross-border cooperation.

Facilitating regional cooperation and cross-border relations has *three dimensions – national, regional and international*. The national governments bear the highest responsibility for conditions which reign in their own countries. At the same time East European transition countries have common problems, which can be solved easier if mutual efforts are applied. Finally, the support of international organizations will be essential for the successful promotion of re-

gional cooperation and cross-border relations.

In order to make use of advantages of regional economic integration and cross border co-operation the East European transition countries need active relevant policies and initiatives. Obstacles related with the lacking regional economic integration and cross border cooperation, insufficient or, to some extent, incompatible cross-border infrastructure networks, the "balkanisation" of regional trade relations, insufficient trade supporting services, different institutional and administrative frameworks, etc., should be overcome.

The lack of information and failing provision with sufficient information for running business can be outlined as the most important constraints to the development of successful business. It can also be stressed here that business associations show no real activity as they do in Western countries.

The support from local and national authorities, from local and national business organizations, and from international organizations is definitely the weakest. In this respect the section of regional policy dealing with cross-border relations should include the provision of all necessary information needed by interested firms: information about suppliers, market niches, possible foreign partners, information for neighbour countries' legislation as well as EU legislation, possibilities for obtaining bank credits and other forms of funding, incl. how to apply and participate in joint EU projects.

The business organizations have to try to support crediting cross-border economic cooperation by means of guarantees, by training to be able to elaborate business plans, training to be able to participate in joint regional projects with foreign financing, creating of centers of information services concerning the opportunities for financing not only for their members but also for businessmen from neighbour countries, and better use of financial opportunities from international, especially EU, programs. Quite important for international organizations is to be more active in supporting joint infrastructure projects in the region, even to make the first step in initiating such kind of projects.

However, it should be once again underlined that the main disadvantages are related with the general economic conditions which imply also the existence of corruption and lack of security, and typical for the region disloyal competition. Other economic conditions of general type are inflation, foreign exchange rates, income trends, etc.

Important obstacle for developing business in neighbour countries in transition is also the low purchasing capacity of the population resulting from the low income level. Permanent amendments of regulations and the laws, poor economic culture and the state of the bank system are obstacles as well. All of them to a different extent are present in the different countries.

The importance of general conditions can be underlined by the following fact: it is found out that the more unfavorable the general conditions in a given Southeast European country are, the more favorable is its legislation and tax system aimed at compensating disadvantages of the general conditions (Minassian, 2002). However, it has been also proved that these disadvantages can hardly be compensated by this policy.

More concretely, the general economic conditions refer to:

- political stability – the relative political instability in the region did not favor the development of business, above all attracting foreign direct investments;
- changing rules – often changes in regulations and laws create for the firms an environment of uncertainty and limited possibilities for long-term planning of their activity;
- corruption – corruption represents a huge problem for the countries, it affects both big companies as well as the SMB. Corruption is spread both at central and local administrative level. It represent a serious obstacle for the cross-border business cooperation and is a strong anti-stimulus for investment in the region;
- bureaucracy – this problem exists in all countries and almost every company has faced it. Bureaucracy in its different forms damages economic relations indirectly. The negative effects are usually missing profits and opportunities. It should be emphasized that any time when companies refer to investment projects, they mention bureaucracy as a problem in trade relations (Totev, et. al., 2001);
- disloyal competition is a major factor tightly related with corruption and bureaucracy. The existence of shadow economy also creates problems related with disloyal competition;

- lack of security typical for the region – high level of crime (stealing of cars, robbery and blackmailing) is still a problem for the region;
- security in income trends – the purchasing power of the population is low, the market in the three countries is narrow with a small product differentiation;
- inflation and exchange rate – financial stability is a problem that affects economic relations and undermines the attempts to foresee and provide long-run policy;

Cross-border cooperation offers undoubted advantages to small and medium enterprises, this is very often the only way for the small firms to access foreign markets. That is why activities in supporting the development of small and medium enterprises in the border regions are essential. Partnership with a company on the other side of the borderline can be useful for obtaining “first hand information” about the foreign market, it can be helpful in finding new partners, it can give additional information for production capacity or/and access to fresh funds. Using cooperative ties small and medium enterprises can profit from advantages of the economies of scale and, thus, be more competitive.

Small and medium enterprises have specific strong characteristics which can be used in starting cross-border cooperation projects: their flexibility, promptness with which small and medium enterprises can respond to the challenges of the foreign markets, direct contact between the managerial level and the market, horizontal structure of small and medium enterprises, which makes the decision-taking process easier and faster than in large companies.

The process of regional integration and cross-border cooperation could be accelerated and enforced also through further particular, specific policies and measures addressed to international organizations, authorities at national and regional level, as well as to business organizations, etc.

Recommendations to the business organizations: supporting the crediting of cross-border economic cooperation through training for making business plans, providing guarantees, etc.; training their members for participation in joint regional projects with foreign financing; creation of centers for information services concerning the opportunities for financing not only their members but also busi-

nessmen from neighbour countries; better use of opportunities for financing from international, especially EU, programs.

Recommendations to international organizations: supporting joint infrastructure projects in the region; supporting the building of new checkpoints and improving the check opportunities of the existing ones; supporting the customs authorities for the projecting and building of a uniform system of database and its engaging in the EU one; supporting the training of passport and customs officers and the creation of efficient control of their work; supporting the financing of mutual cross-border business through business projects with international financing; better informing and activating the international organizations in the region.

it was proved that the development of economic relations within the East European countries is mutually beneficial and generates conditions of an alternative paradigm formulation of intra-countries economic relations (Totev, 2002). From the strategic point of view, the long-term interests require stable relations between the countries, which will help their economies to recover, their industries to use the possibilities of intra-regional trade. Developing intra-regional economic relations will allow to search for trade possibilities. Inter-industry trade can be favourable, because the industrial structure in the countries is more complementary rather than concurrent. The effect of merchandise trade development is expected to be long-term as a whole, but it will be the highest at the beginning of the process, because the potential for this kind of relations decreases with the increase of turnover.

In East European transition countries facilitating the development of efficient enterprises that would benefit from internal and external economies of scale, presupposes, on the one hand, open borders and, on the other, intense trade relations within a larger region and, especially, with neighbouring countries.

One can argue that regional and cross-border cooperation can be also considered as a tool for accelerating the process of synchronization and harmonization of countries' legislation and regulations.

The regional and cross-border cooperation can be more significant for small countries compared with its role for Central European countries in transition; it is so because the possibilities of other forms of cooperation on this stage of economic development are not so favourable for these countries. Providing regional cooperation is a

good indicator for the countries' adaptability to cooperate and respond to the globalization processes.

References

CEC (1993) Trade and Foreign Investment in the Community's Regions: The impact of Economic Reform in Central and Eastern Europe. *Brussels: Regional Development Studies, No 7, Commission of the European Community.*

Minassian, G. (2002), *The Economic Environment in Albania, Bulgaria, Macedonia FYR, and Greece*. Journal Eastern European Economics, July-August, vol. 40, No. 4, pp. 45-82.

Jackson, M. (2001) *Politics and Transition Lags in Southeastern Europe: Will, Ability, or Possibility*. Paper prepared for the final report of the Phare ACE Project P97-8196-R "Overcoming Isolation. Strategies of Development and Policies of Cross-Border Co-operation in South Eastern Europe after "Agenda 2000".

Petrakos, G. (1997) Industrial Structure and Change in the European Union: Comparative Analysis and Implications for Transition Economies. *Eastern European Economics*. March – April, vol. 35, N 2.

Petrakos, G., S. Totev (2000) Economic Structure and Change in the Balkan Region: Implication for Integration, Transition and Economic Cooperation. *International Journal of Urban and Regional Research*, Vol. 24, N 1.

Totev, S. (2002), Economic Performance and Structures of Southeastern European Countries – Albania, Bulgaria, FYR of Macedonia, and Greece Journal. *Eastern European Economics*, Nov.- Dec., Vol. 40, No. 6, M.E., Sharpe Inc., NY., pp. 51-83.